

## **BUSINESS, TRANSPORTATION AND HOUSING AGENCY**

### **California Film and Television Incentive Program**

Title 10, Chapter 7.5, Sections 5500 - 5507

#### **INITIAL STATEMENT OF REASONS**

##### **SPECIFIC PURPOSE OF THE REGULATION**

The proposed regulation will establish the procedures for allocating tax credits to qualified taxpayers in the motion picture industry. This program shall be named the California Film and Television Tax Credit Program.

##### **NECESSITY**

Revenue and Taxation Code sections 17053.85 and 23685 provide for a California tax credit for qualified expenditures in the production of a Qualified Motion Picture in California for taxable years beginning on or after January 1, 2011.

Revenue and Taxation Code sections 17053.85 and 23685 provide that the California Film Commission establish a procedure for applicants to file a written application for the allocation of the tax credit, establish criteria for allocating tax credits, determine and designate applicants who meet the requirements to apply for the tax credit, and issue the credit certificate to the qualified taxpayer upon completion of the Qualified Motion Picture.

The California Film and Television Tax Credit Program specifically targets productions that are most likely to leave the state to take advantage of incentives being offered in other states and countries. This incentive program will enable production companies, making decisions on where to shoot its projects, to keep California as an option and ultimately providing for more film and television projects being filmed in California.

##### **Section 5500. Definitions**

Section 5500 provides definitions of terms used in the California Film and Television Tax Credit Program. This section defines the Applicant, California Film Commission, Director, Credit Allocation Letter and Production Budget. These definitions are specific to this Program and are defined for clarity. The term Production Budget is added to clarify what is included in the expenses paid or incurred during the production period of a qualified motion picture. The definition will clarify that distribution, advertising, marketing and film festival costs are not considered production budget items. This is necessary because in the life of the production of the film, the production company may have several types of budgets for different purposes. This section also defines the following terms used in the statute or regulation that are industry terms: Basic cable, Feature Film, Miniseries, Movie of the Week, Producer, Reality Program, Strip Show, Television Season, Television Series and Total Production Budget. Although, these terms are used in the film industry, they are defined here for clarity and to avoid any misinterpretation of their use in these regulations. Movie of the Week and Miniseries are defined to require two or more consecutive hours of programming. While this is an industry standard definition, it is eligibility criteria for the tax credit program and is needs to be clear to all affected persons.

## Section 5501. Application Process for Tax Credit Allocation

Section 5501 provides for an application process for the tax credit program. Subsection (a) provides for the announcement of a period of time when the production companies can apply for eligible tax credits in each fiscal year. This period of time will be announced to give the production company sufficient time to plan and prepare the documents required to submit with the application.

Subsection (b) provides that the applications will be accepted on a first-come, first-served basis as required by statute and also clarifies the process if more than one application is received on the same day. This section provides that all applications received on any given day during the period of time applications are accepted, shall be randomly numbered for a place in the queue. Without this provision, the program anticipates that producers who can afford to will hire persons who will “camp out” in front of the building where the applications are to be submitted on any given day in order to be guaranteed a priority place in the queue. The system described will provide all applicants equitable treatment with respect to their placement in the queue.

Subsection (c) identifies the required form and form number for clarity.

Subsection (c)(1) requires the application to be submitted at least 30 days before principal photography begins. This tax credit was enacted in order to entice production companies to film in California. If a production company has either begun filming or is only days away from beginning, the tax credits will likely not have been a factor in that company’s decision to locate in California.

Subsection (c)(2) provides that a company that submits duplicate applications shall be disqualified. This requirement will discourage a production company from submitting duplicate applications, with different production names, etc, in order to increase the odds of attaining a priority ranking in the first-come, first-served process.

Subsection (c)(3) provides that a television series only needs to submit one application for the entire season of the series. This provision is for clarity and to insure that all documents, including budgets, are for the entire season.

Subsection (c)(4) provides that an incomplete application shall not be eligible for tax credit allocation. This section clarifies that the applicant will have three days from notification of the deficiencies to correct the application. It also provides that the application will hold its place in the allotment process for those three days. This section will provide the applicant an opportunity to correct any minor deficiencies, but will prevent the applicant from sending in a partially complete application just to hold a ‘place in the queue’ for an extended amount of time to insure receiving tax credit allocations.

Subsection (d) describes all the documents to be submitted with a complete application to be eligible for a tax credit. This provision is for clarity.

Subsection (d)(1) requires a budget to be included with the application. This is necessary to verify that the company meets the statutory financial requirements. The budget will be accepted in any industry standard budgeting program. The CFC needs the budgets to be submitted in consistent formats in order to be able to review effectively. This section also provides that the budget does not need to include the financing.

Subsection (d)(1)(A) provides for a qualification allowance for the applicants in regards to completion bonds. The program is allowing the company to deduct this cost from the budget, provided they do not list it as a qualified expenditure. Productions are given this option if inclusion of the bond will affect their ability to qualify at a specific budget threshold. However, if they are not including it in the Production Budget for threshold purposes, they are not allowed to include it for qualifying expenditure purposes. Bond fees that are excluded in the Qualified Expenditure Budgets of Independent productions in order to meet threshold requirements are excluded as a qualified expenditure. Not all companies will have completion bonds, as they are dependant upon the request of the financiers and/or producers.

Subsection (d)(1)(B) provides that the television series is allowed to submit a pattern budget, which is consistent with industry standards.

Subsection (d)(2) requires the submittal of a one-line shooting schedule, which will verify that the filming schedule is meeting the timeframe criteria of the program.

Subsection (d)(2)(A) provides for television series, due to having multiple periods of preparation, principal photography, and post-production for each episode, to submit a production calendar instead of a one-line shooting schedule.

Subsection (d)(3) requires a synopsis of the screenplay, teleplay or series. This is required to verify that it meets the criteria in statute as to the type of production. The synopsis will give a summary of the plot.

Subsection (d)(4) requires a screenplay for the production. This is to verify that it meets the criteria in statute as to the type of production. This is needed in addition to a synopsis in order to verify that the application is for a specific film or television project rather than merely a “placeholder” for a potential project that a company hopes to produce in the future.

Subsection (d)(5) requires a financing sources report to list the entities or persons funding the production. The program requires proof of a minimum of 60% financing in order to have more certainty that the project will be produced and completed and therefore utilize the tax credits. Supporting financial documentation provides more conclusive evidence of such financing.

Subsection (d)(6) requires a relocation statement from any television series that is qualifying for the tax credit that is relocating its production to California. This is to verify that the reason they relocated is for the tax credit. This is also necessary because this is the only way a television series, less than 60 minutes in length and for any media outlet, can qualify for the program.

Subsection (d)(7) requires an independent film to provide a Declaration verifying that the film claiming to be independent is not a publicly traded company or owned in part more than 25% by a publicly traded company. This is to ensure that the ability to transfer the tax credits and receive an additional 5% tax incentive is only awarded to an independent film. This is consistent with the statute.

Subsection (e) provides the applicant with the review timeframe by the CFC. It also provides that the application, once approved, is documented with a Credit Allocation Letter, with the tax credit allocation stated on the form. This provision will enable the CFC adequate time to review applications and will serve to notify the production company the maximum amount of credits on reserve for the project.

Subsection (f) provides that an applicant that has been approved and has received the Credit Allocation Letter is required to send production company personnel to a meeting at the CFC. This is to insure that the production company understands the requirements of the program and submits the required documentation before, during, and after the filming process and upon completion of the post-production process in order to receive the tax credits.

Subsection (g) provides that a television series will get a priority application ranking in subsequent years after initial tax credit allocation. A new series will need assurance that they will receive placement at the top of the queue so as to be eligible for additional credits in subsequent years before committing to film the series in California. A company filming in a state with a tax credit may not be inclined to relocate the production in this state if they are not confident that the tax credits would extend beyond the first shooting season.

Section (h) provides that the principal photography is required to begin within 180 days of approval of the application and that failure to do so will result in revocation of the reserved tax credits. This requirement is provided for in the statute, but is repeated here for clarity and to assist the reader in locating all pertinent laws relating to this tax credit.

#### Section 5502. Eligibility Determination

Section 5502 identifies the eligibility requirements for the California Film and Television Tax Credit Program.

Subsection (a) requires that the applicant plans to produce a Qualified Motion Picture and provides that the Qualified Motion Picture must be consistent with the requirements in the Revenue and Taxation Code. This is added for clarity.

Subsection (b) specifies that “Qualified Motion Picture” is defined in the Revenue and Taxation Code. This is added for clarity and to assist the reader in locating all pertinent laws relating to this tax credit.

Subsection (c) specifies that the applicants must plan to film at least 75% of principal photography days wholly in California or incur 75% of the production expenditures within California. This is repeated from statute for clarity and to assist the affected public in knowing all applicable provision of this tax credit. This section also specifies that filming of backgrounds, visual effects, action and crowd scenes by the second, stunt or visual effect units are not included as principal photography days. This is necessary so that the production company doesn’t include these types of filming days in their total of principal photography days. The filming of backgrounds, stunt scenes, etc. does not normally generate the type of revenues in the state as filming of the main production. With the intent of this legislation being to bring in jobs and revenue to the state, the program does not want to provide a way for the production company to film only secondary sequences in the state and a majority of the film in another state.

Subsection (d) provides that an eligible television series must have a sixty-minute running time. This is consistent with the statute that excludes one-half hour television series shows. This subsection specifies a 60-minute running time, because that is consistent with standard television programming. This 60-minute specification will prevent a 30-minute television show from intentionally extending their program length to just over 30 minutes to qualify.

Subsection (e) provides the criteria for a Television Series to qualify as a relocated series. The taxpayer must certify that they relocated to California for the tax credit and this section allows the program to be any length. This varies from a regular qualified TV series that must be 60 minutes in length. This is consistent with the requirements in statute.

Subsection (f) specifies that a television pilot does not qualify. The statute provides that a “Qualified Motion Picture” may be a television “series”. By industry definition, a television pilot, while it is a common type of production, is not a “series” and is excluded as a Qualified Motion Picture. This is added for clarity.

Subsection (g) specifies that an animated production is not a Qualified Motion Picture. This is added for clarity. An animated production does not meet all the criteria in the statute to be considered a Qualified Motion Picture. The statute requires the film to include “principal photography” days, which do not exist in animated productions.

Subsection (h) provides that the Production Budget of a Feature Film cannot exceed \$75 million dollars. This requirement is provided for in the statute, but is repeated here for clarity and to assist the reader in locating all pertinent laws relating to this tax credit.

Subsection (i) provides that an independent film that exceeds the maximum allowable budget shall be reclassified as a Feature Film and put back in the queue for any available tax credits as redefined. The independent film that is reclassified will only receive a new tax credit allocation if there are tax credits available in the general allocation fund for the fiscal year. This is necessary because the statute provides for a percentage of the funds to be allocated to independent films. If the funds were not replaced into the independent film fund, the program would be allocating an amount lesser than required by statute. This also insures that only films in the “independent” category would be eligible to receive the additional 5% credit and ability to transfer credits. Should an independent film’s qualified expenditures exceed the \$10 million dollar threshold, their credit allocation limit would be on par with the credit allocation allowed for productions with budgets that exceed \$10 million dollars.

Subsection (j) provides that Movies of the Week and Mini-Series may be considered as independent films. This section clarifies the definition of independent films to include these types of productions, as long as they meet the financial qualifications and have no more than 25% of funding from publicly traded companies. It is not clear from the statute that these types of productions can qualify as independent films provided they meet the stated specifications and this clarifies their eligibility.

Subsection (k) provides that revocation of the tax credit is final and not subject to administrative appeal. The statute does not provide for appeals or administrative hearings.

#### Section 5503. Qualified Expenditures

Section 5503(a) identifies the provisions in the statute for Qualified Expenditures for clarity. Subsection (a)(1) clarifies that Qualified Wages includes payments made to a qualified entity in California because the intent of this regulation is to increase employment and revenues in California.

Subsection (b)(1) through (b)(4) identifies non-qualified expenditures including State and Federal income taxes, CPA fees, expenditures for services performed outside of California and expenditures for exhibition of the completed film or television production. These expenditures are listed for clarity to better define exclusions cited in the Statute.

Subsection (b)(5) defines the time in the production period that expenditures will no longer qualify. The program allows an additional 30 days to perform final post-production duties and payment to vendors, after which expenditures will not qualify. The statute provides that a motion picture is completed when the process of post-production has been finished. This provision ties qualified costs to the completion of post-production.

#### Section 5504. Tax Credit Allocation

Section 5504(a) provides for the procedures in allocating the tax credits. The Revenue and Taxation Code provisions are cited for clarity and to assist the reader in attaining all relevant information.

Subsection 5504(b) provides that after all tax credits have been allocated for the fiscal year, any applications still in the queue will remain in the queue in the order received, until allocations become available, the applicant withdraws the application or the end of the fiscal year. This system will allow the program to insure all tax credits are assigned in a given fiscal year, and prevent the company from having to resubmit an application if credit allocations became available.

Subsection 5504(c) provides that ten million dollars will be reserved for Independent Films each fiscal year. This is consistent with statute that provides for up to ten million dollars to be reserved for this type of production. This provision specifies that the full ten million will be available for independent films.

#### Section 5505. Approved Applicant Responsibility

Section 5505 establishes reporting requirements for a production company during the filming of the Qualified Motion Picture. These documents will demonstrate that the company is meeting the requirements of these regulations and statute.

Subsection 5505(a)(1) requires the production to submit a Daily Call Sheet on the first day of production. This will document that principal photography started a minimum of 30 days after the application and at a maximum of 180 days.

Subsection 5505(a)(2) requires a final productions report during the period of Principal Photography. These documents will enable the CFC to verify the number of principal photography days for the production in California and elsewhere, a percentage of which is an eligibility requirement.

Subsection 5505(a)(3)(A) requires a Monthly Status Report indicating changes to qualified expenditures, production schedule, financing or personnel. Significant changes to any of these elements could change the production's start and finish dates, budget amount or ability to produce the project, all of which could impact the use or amount of the tax credits. The program needs this information to be able to allocate anticipated unused credits to other qualified applicants.

Subsection 5505(a)(3)(B) provides that the company does not need to submit a new Monthly Status Report in the subsequent months, if there are no changes, but does require an email to that effect. This requirement will eliminate paperwork for both the company and the CFC, while still keeping the CFC informed.

Subsection 5505(a)(4) requires a Fiscal Year End Expenditure Report for any production that extends over more than one fiscal year. The CFC requires fiscal year end financial information from program participants for reporting purposes as required by statute. The report is due at the end of the fiscal year because the program reporting requirements are annual reports based on the state fiscal year.

#### Section 5506. Credit Certificate Issuance Process

Section 5506 provides for the issuance of the Credit Certificate, which is the document issued to the qualified taxpayer upon completion of the Qualified Motion Picture. This is the official document that the taxpayer will need to submit to the State Franchise Tax Board when filing for the tax credit.

Subsection 5506(a)(1) This section requires the applicant to submit a form, Request for Tax Credit Certificate, requesting the official certificate and verifying the completion of the project. The submittal of this form will indicate that the production company has completed the process and is ready for the final review by the CFC.

Subsection 5506(a)(2) requires proof of copyright registration of the screenplay. The Statute stipulates copyright registration of the "motion picture" in order for a film to be considered "qualified". A motion picture is normally in release by the time it is able to obtain a certified copyright certificate. In order not to unduly delay issuing the tax certificate nor make release of the picture a requirement (which is not stipulated in the legislation), "screenplay" has been added, as a screenplay can be copyrighted prior to completion of the project, and verifies ownership of the material.

Subsection 5506(a)(3) requires documentation that verifies date of completion of post-production. The program needs this information in order to verify that the applicant has complied with the 30-month time frame for completion as per the statute.

Subsection 5506(a)(4) requires a list of all cast, crew, and vendors. This information will be utilized by the CFC in fulfilling Legislative reporting requirements.

Subsection 5506(a)(5) requires an Expenditure Summary Report, to be used by the applicant in reporting a breakdown of qualified expenditures incurred in California and employee information. The CFC will utilize data from this report in order to fulfill Legislative reporting requirements.

Subsection 5506(a)(6) requires an Employment Diversity Report. The CFC is required by statute to report on the diversity of the workforce employed by its applicants during the production of its Qualified Motion Picture.

Subsection 5506(a)(7) requires a report from a California Licensed certified public accountant that complies with the Agreed Upon Procedures by verifying the expenses reported. The Agreed Upon Procedures Report, dated October 1, 2009, is incorporated by reference. It is a technical document developed with the assistance of California certified public accountants familiar with accounting practices of the film and television industry and specifically for the tax credit program. The statute requires the CFC to establish audit procedures that must be satisfied before a credit certificate may be issued. The procedures outlined in the Agreed Upon Procedures document will insure that the applicant has complied with all requirements as indicated in the program regulations and statute.

Subsection 5506(a)(8) requires a Final Checker or Galley signed by a production representative. A Final Checker or Galley lists the credits for cast and crew. The statute excludes certain individual job categories from qualifying for the calculation of the tax credits. This information will be used by the certified public accountant to examine the personnel on the job and compare with the persons listed on the credits to determine if they are in excluded categories.

Subsection 5506(a)(9) requires documentation verifying any contracted work in the area of visual effects, titles, and digital effects was performed in the state of California. The statute mandates that the service must be performed in the state in order to be Qualified Expenditures and eligible for tax credits.

Subsection 5506(a)(10) requires a new television series to submit documentation to verify its initial distribution for broadcast on basic cable. This statute requires a new television series must be produced for initial distribution on basic cable.

Subsection 5506(a)(11) requires a Movie of the Week or Miniseries to submit documentation to verify its initial distribution on television in a programming block of two or more consecutive hours. By definition, a Movie of the Week or Miniseries are eligible for this program only if they are produced for initial exploitation on television for two or more consecutive hours of programming. This requirement will provide verification of qualification for the tax credits.

Subsection 5506(b) provides that the Qualified Motion Picture shall be considered complete when the process of post-production has been finished and the complete and final elements of the production have been created. The statute mandates that the production be completed within 30 months of acceptance into the tax credit program. This subsection lists the elements that are created at the end of the post-production process.

Subsection 5506(c) specifies that the production shall be completed in a timely manner as required in the relevant Revenue and Taxation Code. These sections are included here for clarity and consistency throughout these regulations.

Subsection 5506(d) provides that the Director of the CFC will review all the documents submitted and determine if the application meets all the criteria for the program. This provision identifies the person and entity responsible for the final review and is added for clarity.

Section 5506(e) provides that if the request is disapproved, the Director shall provide the reasons for the disapproval and the decision is final and not subject to administrative appeal or review. The statute does not provide for appeals or administrative hearings.

Subsection 5506(f) provides that a qualified taxpayer whose Request for the Tax Credit Certificate is approved shall be issued a Tax Credit Certificate, the official document required to be submitted to the Franchise Tax Board or the Board of Equalization in California for the tax credit. This section also specifies that the document will not be issued prior to January 1, 2011, as that is the initial date after which the qualified taxpayer may utilize the tax credits as provided for in statute.

#### Section 5507. On Screen Credit and Promotional Requirements.

Section 5507 requires the holder of the Credit Certificate to comply with promotional requirements. The inclusion of an on-screen credit is mandated by most state film commissions in an effort to market its incentive program, locations and local work force. Therefore, it is in the best interests of the State to have a similar requirement, as well as request promotional materials for use in marketing the state as a filming location. These promotional requirements are as follows:

Subsection 5507(a)(1) requires an on-screen acknowledgement to CFC.

Subsection 5507(a)(2) requires the production company to supply five production stills for promotional use by the CFC.

Subsection 5507(a)(3) requires an electronic press kit, if available.

#### California Film and Television Tax Credit Program Application Form, CFC Form A

The Application Form is the initial document required to apply for tax credits. The statute specifies that the California Film Commission shall establish a procedure for applicants to file with the Commission a written application. The application form has been jointly prescribed by the California Film Commission and the Franchise Tax Board, as required by statute. The FTB has submitted written approval of the



## Application Form.

Section One requires company information. First it requires specific information on the production, including the date, title of production, the production company name and date of formation of the production company. The production company and title of the production will be unique and will identify the project that will be required to meet the statute criteria. The date of formation is required for use by the Franchise Tax Board. The production companies are usually formed and incorporated for each production. This section also requires the name, company and address of the applicant. This information will be used for corresponding with the applicant and for issuing the tax credit. The applicant, which is also the taxpayer, may have other productions and production companies applying for tax credit. The Taxpayer ID number is required for use by the Franchise Tax Board. The Seller's Permit Number is to provide the Board of Equalization information if the applicant planned on making an irrevocable election to apply the credit amount against qualified sales and use taxes imposed on the taxpayer.

The type of entity is required. Although most of the production companies will form a new company for each production, independent films may be a sole proprietorship, or other type of corporation. The type of entity will need to be consistent with Tax Identification numbers when filing tax credit with the FTB.

Section Two requires the name and address of the production company representatives. The Production information for Producer, Line Producer, Production Manager, Production Accountant, and Post Production Accountant are needed for contact purposes throughout the production and post-production periods. Two or more of these individuals are required to attend the orientation meeting of the CFC Film and Television Tax Credit Program.

The names of the Key Production Personnel, Director, Executive Producer and Lead Actor/Actress are required to verify the legitimacy of the production.

The name of the Payroll Service is required to verify that the company has a professional payroll service. Accurate payroll records evidencing qualified and nonqualified wages are critical to this program and will be inspected by an independent certified public accountant.

The Distributor Information is required because the statute mandates initial distribution for broadcast on basic cable for certain types of productions and this requirement provides verification.

Section Three requires the applicant to indicate the type of production. This is to verify that the production company is filming a production allowed by statute.

Section Three also requires the applicant to provide information on the principal photography days. The start of principal photography and end of principal photography are required to verify that the filming schedule will meet the criteria in statute, begin no earlier than 30 days from the date of the application and no later than 180 days after application date. This section also requires the applicant to indicate the filming days both in and outside of California to estimate the percentage of filming to be completed in California. One of the eligibility requirements for the program requires that 75% of principal photography days must shoot in California to qualify for the program. This section also requires the applicant to estimate the number of days in the Los Angeles area and the non Los Angeles area. This information will also be used for reporting purposes to the Legislature the areas in California where the increase in filming occurs as a result of the program.

Subsection C requires the applicant to provide an estimate of "Total California Expenditures". This is to verify that the production will meet the criteria in the statute of incurring 75% of the production spend in California.

Section Four requires the applicant to estimate tax credit allocation for the production based on the qualified wages and qualified expenditures. This information will provide a basis for the actual assignment of tax credits. First, it will give the applicant an estimate of the tax credits they will receive for choosing to film in California. It will also provide the CFC a tax credit allocation dollar amount to assign to this production while reviewing the substantiating documentation. The CFC needs to have tax credits temporarily assigned to each project in order to know if they are near the annual threshold, and whether they can continue to accept applications. As the documentation is reviewed, that number may be adjusted based on unqualified wages or expenditures being included.

Section Five provides a list of the attachments required in section 5501(d).

Section Six requires a signature under the penalty of perjury that the application is true and correct.

#### Financing Sources Report, CFC Form B

This form will identify the financing sources for the production. The applicant needs to include the production company and production title for identification purposes. The applicant is required to list the name of the financing source, the amount and the percentage of financing for the project it represents. This is required to insure that the project has a substantial amount of financing secured. The CFC's intent is to increase employment and spending in California by allocating tax credit to productions filmed in California. If the funding is insufficient, the film will not be produced, the State sees no benefit and other productions denied tax credits reserved for such productions may decide to film in another state.

#### Independent Film Declaration, CFC Form C

This form is required if the Qualified Motion Picture meets the criteria for an independent film. This form is only required from a production applying for tax credits allocated to an independent film. This form requires the applicant to list the name of the production and production company for identification purposes. The form will be used to verify that the film is independent by identifying the ownership. This form requires a certification by the applicant under penalty of perjury that the information is true and correct.

#### Credit Allocation Letter, CFC Form D

The CFC shall issue a Credit Allocation Letter, CFC Form D, which provides the approval of the applicant and identifies the number of tax credits for which the applicant is eligible. This form will include for identification purposes the Credit Allocation Number, the Qualified Taxpayer Identification Number, the Seller's Permit Number, if provided by the applicant, the Title of the Production, the Production Company Name and the Type of Production. The form will also include the Start of Production, and End of Production dates to verify the timeframe for filming this production. The Tax Credit Allocations reserved will be stated on the form. This number will be calculated from the application and is supporting data that is submitted. It may differ from the number originally indicated by the applicant on the Application Form due to wages or expenditures that may not meet the criteria in statute. The Applicant Name, Company and Contact Name are included on the form for identification of the actual taxpayer receiving the credits. The form is required to be signed by the Director of the CFC to be valid. This is to avoid draft documents, or counterfeit documents being considered a legal notification of tax credits.

#### Expenditure Summary Report, CFC Form F

This form is used to gather final expenditure information and statistics upon completion of a Qualified Motion Picture. The form requires the Applicant information, including the production title, company and Credit Allocation Letter number for identification purposes. It also requires the Applicant to resubmit the name and address information because after principal photography is completed and the project is in post-production, the company will often close the main production company office and move to another

location. This will insure that the CFC has the current information on file. The information on this form will be used to determine the economic impact on the state, including employees hired and wages in both production and post-production. The CFC is required by statute to submit economic impact reports to the legislature.

#### Monthly Status Report Form, CFC Form I

A Monthly Status Report Form, CFC Form I, shall be required to be submitted monthly during principal photography and includes the project status and estimated qualified expenditures changes.

The Production Title, Production Company, Applicant Name and Credit Allocation Letter number are required for identification of the project. The report for the month ending is required to document which month the report covers. Section Number 1 requires the applicant to indicate the current project status. This will let the CFC know if the project is on schedule, based on the original information submitted. Section Number 2 requires the production to indicate if there has been a change in the proposed budget as originally proposed. Section Number 3 requires the production company to indicate if there has been any change in the production schedule, including principal photography days. If a filming schedule change results in less than 75% of the principal photography days in California, the production needs to be notified that they will lose the tax credits if the production's eligibility is based on this factor. Section Number 4 requires information on the financing of the project. If the production loses financing, it may be at jeopardy of continuing or completing the project. The CFC will monitor these types of changes and if necessary revoke the Credit Allocation Letter, in order to allow a more viable company to receive the tax credit and film in California. Section Number 5 requires the production company to indicate if there are any other changes in the information originally supplied, including personnel, again to determine if the project is on schedule and will be completed.

#### Employment Diversity Report, CFC Form H

The CFC is required by statute to report on the diversity of the workforce in the Qualified Motion Pictures produced as a result of this program. The form will require the applicant to submit the production title, the production company name and Credit Allocation number for identification purposes. The production company will submit the ethnicity for each hire on the Qualified Motion Picture, based on the information provided by the employee, and indicate the number of days worked. Information is only used for statistical information.

#### Request for a Tax Credit Certificate, CFC Form J

This form will indicate that the Qualified Motion Picture is complete and the Applicant is ready to be assigned the actual tax credits. The form requires the Credit Allocation Letter Number, Date, Production Title, and Type of Production for identification purposes. The production period is required to verify the start and end days are consistent with the statute criteria. The Applicant/Qualified Taxpayer information is required to verify that the information originally submitted is current. This information will be transferred to the Tax Credit Certificate and must be accurate. The Taxpayer ID Number and Seller's Permit Number are required by the Franchise Tax Board and Board of Equalization for identification purposes. The Copyright Registration Number verifies that the copyright was registered with the United States Copyright Office as required in statute. The Tax Credit Allocation Due is requested because the actual Qualified Wage and Qualified Expenditures may differ from the amount originally requested on the application. The documentation submitted with the Request for Tax Credit Certificate supports the amount requested on this form. The form is required to be signed under penalty of perjury that the content is true and correct.

#### Fiscal Year End Expenditure Report, CFC Form K

This information required on this form is identical to the Expenditure Summary Report, CFC Form F. Since the Program is required to submit the information annually, the CFC is requiring a production company that has a production period extending beyond the fiscal year to submit the information by July

The Tax Credit Certificate, CFC Form M

The Tax Credit Certificate is the actual tax credit certificate that will be issued by the Director of the CFC and is the document that will be submitted to the Franchise Tax Board or the Board of Equalization. The information on this form is obtained from the most current information received on the Request for a Tax Credit Certificate. The actual tax credit allocation will be based on review of all the Qualified Wages and Expenditures and may differ from the number requested, if any of the wages or expenditures submitted did not meet the program criteria. The form will be signed by the Director of the California Film Commission and will be null and void without a valid signature.

This is the form the Applicant files with the Franchise Tax Board or the Board of Equalization.

**TECHNICAL, THEORETICAL, AND /OR EMPIRICAL STUDIES, REPORTS, OR DOCUMENTS**

The Office did not rely upon any technical, theoretical, or empirical studies, reports, or documents in proposing the adoption of this regulation.

**REASONABLE ALTERNATIVES TO THE REGULATION AND THE OFFICE'S REASON FOR REJECTING THOSE ALTERNATIVES**

No other alternatives were presented to or considered by the Office. This regulation implements Revenue and Taxation Code sections 17053.85 and 23623.

**REASONABLE ALTERNATIVES TO THE PROPOSED REGULATORY ACTION THAT WOULD LESSEN ANY ADVERSE IMPACT ON SMALL BUSINESS**

The Office has not identified any alternatives that would lessen any adverse impact on small business. This proposal will provide more opportunities for small business as more production companies decide to film in California.

**EVIDENCE SUPPORTING FINDING OF NO SIGNIFICANT ADVERSE ECONOMIC IMPACT ON ANY BUSINESS**

The office has determined that the proposed regulations would not have a significant adverse economic impact on businesses. These regulations will provide for an increase in revenues and employment in California by bringing more filming business into California.

**SPECIFIC TECHNOLOGY OR EQUIPMENT**

This proposal will not mandate the use of specific technologies or equipment.